



THE KINGDOM OF SWAZILAND

MID-YEAR BUDGET REVIEW REPORT

2012/13

PRESENTED BY

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TO THE

**PARLIAMENT
OF THE
KINGDOM OF SWAZILAND**

26TH NOVEMBER, 2012

1. Introduction

Mr Speaker, this time last year I came to Parliament to deliver a Supplementary Budget to reduce spending by E554 million. This action reduced the forecast deficit from around 11.2% of GDP to 9.4% of GDP. Lower financing forced Government to prioritise spending still further, and I am pleased to say that actual deficit outturns are likely to have even lower, at around 6% of GDP.

This year I am not here to deliver a supplementary budget. Higher SACU revenues have stabilised the fiscal position. They have more than doubled compared to last year, rising from E2.9 billion to E7.1 billion. Despite this windfall, Mr Speaker, Government's finances remain strained by high recurrent spending as well as short-term debts and arrears during the fiscal crisis. The outlook for the next two years is also uncertain. That is why, Mr Speaker, I have committed to update Parliament and the nation on progress in implementing the 2012/13 Budget so far.

2. Economic Outlook

Mr Speaker, the progress of this year's Budget is critical because of the uncertainties facing the global economy. The global economy is still undergoing a difficult adjustment after the financial crisis of 2008. Major risks include the impact of fiscal consolidation in the United States economy and a deepening of the euro crisis. A lengthy period of deleveraging in advanced economies is expected to limit trade and investment. This will dampen foreign direct investment and will constrain employment and private sector activity, particularly in advanced economies.

Developing countries are also being affected. Brazil, China and India are expected to grow more slowly in 2012 than in recent years. While sub-Saharan Africa has been highly resilient so far, economic growth in South Africa has also slowed. Last month, the South African National Treasury revised down its forecasts for real GDP growth for 2012 from 2.7% to 2.5%.

Mr Speaker, these developments will affect us as well. Swaziland relies heavily on trade with other countries. Around three quarters of our imports and exports are to or from South Africa. In addition, Europe and the United States are important markets for our exports, especially for sugar and textiles. They are also sources of tourism and potential investment.

Growth forecasts for 2012 have been revised down from earlier estimates by the Ministry of Economic Development and Planning and the Central Bank to 0.2%. We believe this is a conservative estimate. It reflects the growing pessimism surrounding the global economy and also takes into account weak demand in the domestic economy after the fiscal crisis of 2010/11 and 2011/12.

In response, monetary policy is expected to remain accommodative throughout 2012/13 and into the medium term. Even though inflation is above the 3-6% target, interest rates will stay low to make it cheaper for people and businesses to borrow.

3. Summary of 2012/13 budget execution

Mr Speaker, in February I committed to presenting a credible budget. I am pleased to announce that our half-year estimates suggest that the Budget is broadly on track. However, financing items continue to place strain on the liquidity position. These are payments to arrears and reserves.

3.1 Revenues and grants

Mr Speaker, through the budget we estimated that around E11.9 billion would be collected in 2012/13 through taxes, other revenue sources and loan repayments. Initial forecasts suggest that revenue collection will be on target.

Around 60% of total revenues are from SACU and are expected to end the year at E7.1 billion as budgeted. The remaining 40% of revenues are collected domestically. Together, income taxes on individuals, corporate taxes and VAT make up E3.9 billion (around 80%) of total non-SACU revenues.

- Taxes on the income of individuals were budgeted at E1.59 billion. By 30 September, E650 million had been collected. Based on recent trends and seasonality, we expect that income taxes will fall short of the Budget by around E30 million.
- Corporate taxes were budgeted at E820 million. By 30 September, E380 million had been collected. By the end of the year expect that corporate taxes will yield around E830 million.
- In April 2012, the Swaziland Revenue Authority introduced VAT. The Government estimated in February that this would yield E1.50 billion in 2012/13, around E300 million more than if sales tax were continued. By 30 September, E800 million had been collected. This includes rebates that will be paid back to businesses that have overpaid. However, we expect that by the end of the year, Government will have collected around E1.6 billion from VAT, E100 million more than budgeted.

Together, all other taxes will yield around E700 million, approximately equal to the budget. Lower than expected collections on other income taxes, transfer duties, licences and other taxes have been offset by higher collections on fuel tax and lotteries and gaming taxes.

Non-tax revenues were budgeted at E130 million and are expected to yield just E80 million this year. Loan repayment, which includes scholarships repayments, is also falling short: only E14 million is expected to be collected this fiscal year compared to a budget of over E60 million.

Mr Speaker, grants are also a source of revenue, but are earmarked for specific projects and programmes. Because they are earmarked to specific items of expenditure, they do not impact on the overall deficit. In 2012/13 grants were budgeted at E360 million. At the end of September, the Government has recorded just E20 million in grants received. I would like to make it clear that this is not a reflection on our development partners who continue to support important initiatives in Swaziland. Instead, it shows the need to improve the recording of grant information. To this end, the Ministry of Economic Planning and Development is improving the existing Aid-Coordination Policy. I hope donors will continue to support our efforts to make all public expenditure more transparent.

3.2 Expenditure

Mr Speaker, total expenditure was budgeted at E12.0 billion and I am pleased to announce that most expenditure remains within target. Of this 80% was for recurrent and 20% for capital

spending. E550 million was earmarked for financing short-term debts accumulated in 2011/12 and boosting reserves.

Mr Speaker, recurrent expenditure remains high, and is unlikely to yield any significant savings in 2012/13. Excluding the budget for financing items, the Government expects to spend E9.2 billion on recurrent spending, almost exactly as budgeted. If financing items are included, total spending for the first six months of the year was around E6.0 billion and is forecast to reach E12.4 billion by the end of the fiscal year. This is around 4% or E400 million higher than the budget allocation.

Mr Speaker, the wage bill is the largest single item of expenditure and equal to half of all recurrent spending. Spending on the wage bill is expected to be E4.6 billion at the end of the fiscal year, including pension contributions. This is E200 million more than Government committed in 2011/12, despite the wage and hiring freeze. However, against the budget for personnel, we still expect savings of around E50 million.

Mr Speaker, these savings could have been larger if not for overspending by some ministries. The Ministry of Education, Parliament, the Elections and Boundaries Commission, statutory positions and Correctional Services are forecast to overspend by E70 million on personnel.

Mr Speaker, the Ministry has continued to apply centralised controls to reduce spending on goods and services. As a result, spending on goods and services is forecast to be E1.78 billion in 2012/13, saving around E90 million (or around 5% of the budget allocation). Savings would be higher still had it not been for overspending on CTA, travel and communications, and rentals estimated at E120 million. The Government needs to strengthen its control over these spending items.

Interest payments are expected to be 40% higher than the budget allocation. This is due to the depreciation of the exchange rate, high charges on Treasury Bills, and the repayment of the Central Bank line of credit. As a result interest payments are forecast to be around E345 million by the end of the fiscal year, nearly E100 million more than the E250 million budget estimate.

Mr Speaker, excluding arrears repayment and reserves replenishment payments, expenditure on transfers are forecast to be at budgeted levels, with some overspending on transfers to individuals pushing total expenditure to E2.5 billion by the end of the year.

Overall spending on capital projects has underperformed. Investment spending is forecast to be E1.6 billion at the end of the year, around E700 million less than the budget. However, most of the under-spending is on donor-financed projects which are either behind schedule or not fully recorded by Government. Because the money spent on these projects is sourced from a donor, the savings will not improve the Government's cash position.

Most importantly, Mr Speaker, capital projects financed by government are performing well and are expected to be just E110 million short of the E1.6 billion budget by the end of the year, even if there continue to be challenges in making payments on time.

Mr Speaker, so far I have explained that with the exception of interest payments, most other spending is close to the level budgeted or below. However, expenditure will exceed the budgeted levels because of payments towards arrears and reserves replenishment. This spending was

necessary to improve reserve cover and to restart activity in the private sector. It is supported by the IMF and no supplementary budget is required because these items can also be classed as debt repayments.

To date, the Government has repaid the full E660 million line of credit taken from the Central Bank. This cost E260 million more than the allocation provided in the Budget for boosting reserves. This action together with higher SACU receipts mean that gross official reserves have increased by around one month of import cover compared to the same time last year. At-end October 2012 reserves covered around 3.5 months of imports.

In addition, the IMF estimated that Government has repaid E260 million in arrears since April. An agreement has also been reached with the Public Service Pension Fund to securitise over E720 million in outstanding contributions, which will be paid in monthly instalments over a three year period. As a result, the stock of arrears has fallen from E1.56 billion in March 2012 to around E600 million today.

Mr Speaker, if the Government can borrow enough domestically, it will clear the remaining arrears before the end of the fiscal year. This will increase expenditure from around E11.8 billion to E12.4 billion.

3.3 Deficit and financing

Mr Speaker, the Budget announced a budget surplus of nearly E200 million (0.6% of GDP). Under current trends total revenue, loan repayment and grants will be E11.9 billion. If no further arrears are paid, expenditure will be over E11.8 billion and the budget will roughly balance, with a small surplus of around 0.2% of GDP.

However, the Government has committed to clearing arrears as quickly as possible in order to support private sector activity. If the remaining arrears are paid in 2012/13, the budget will produce a deficit of over E500 million (-1.6% of GDP).

Therefore, Mr Speaker, this year the Government will create fiscal space to repay a further E400 million in outstanding payments. To do this we will:

- reduce expenditure by E100 million through internal controls; and
- borrow E300 million more from the domestic market; with
- remaining arrears financed in 2013/14.

Priority will go to paying private sector companies and contractors. If the Government is unable to borrow sufficiently, a larger allocation will be made in 2013/14 to ensure all arrears are paid in full.

Mr Speaker, I would like to emphasise that, as a result of recent financing decisions, the Government finances are much healthier today than they were at the close of 2011/12. The Lilangeni is also better protected from external shocks.

3.4 Update on policies announced in the 2012/13 budget speech

Mr. Speaker the Budget is not just about balancing the numbers. It is also the services and policies about we want to see delivered and implemented as a nation. In February, I announced a number of policy actions to be taken. These included the introduction of VAT which I have already discussed. I will take this opportunity to update the Honorable Members of Parliament on some that I have not mentioned already.

Mr Speaker, I announced the Government's commitment to improve the way public resources and assets are managed. To do this the Ministry of Finance has coordinated efforts to deliver a new Public Finance Management Bill. Technical work has been completed with the support of AFRITAC South and I hope to bring the Bill to Parliament with a certificate of urgency soon. Once passed into law, the PFM Bill will also form the legal basis for a new Dividend Policy as announced in the Budget Speech. However, its core objectives will be to strengthen the existing public finance management system, before introducing reforms to:

- establish a clearer accountability framework for the use of government resources;
- improve the management of cash and other public assets; and
- monitor all fiscal risks and liabilities.

It will do this by introducing a medium-term fiscal framework, multi-year budgeting and annual plans for each ministry and public enterprise, and by giving greater responsibilities to Principal Secretaries while improving the oversight of the Auditor General and Parliament. Importantly, the Ministry of Finance will need to monitor and report on the fiscal position as well as debt sustainability and fiscal risks.

The Government is not waiting for the Bill to be passed into law to further some of these aims. That is why this year all ministries will be forecasting the cost of their programmes over the medium term and providing key indicators for each department as part of the budget process.

To improve the regulation of the financial sector, the Government has operationalised the Financial Services Regulatory Authority as promised. An associated working group is developing new legislation to regulate savings and credit cooperatives to make sure that the savings of individuals are not being mismanaged. The Ministry of Finance is also working to improve access to credit for small- and medium-sized enterprises. We have established a Rural Finance and Enterprise Development Programme and officials have opened talks with MTN on how to improve the use of mobile technology to accelerate access to bank-less branching for the rural poor.

Mr Speaker, the Ministry of Public Service has completed preliminary work for implementing the payroll audit, which will now be conducted in 2013/14 and will extend to the security forces as well as general civil servants. A performance management system is also being planned and will be piloted in the three central agencies – Finance, Public Service and Economic Planning – starting in December.

The Government has established the Swaziland Civil Aviation Authority and has submitted legislation to Parliament to implement a semi-autonomous new Roads Authority. Crown Agents have been hired to take the final steps to operationalising the new Procurement Agency.

The transport master plan has been drafted and is being reviewed. The economic diversification study is almost complete and ready for publication. It suggests that Swaziland is relatively well

diversified in terms of produce, but that Government should focus on diversifying its export markets and improving its institutional arrangements for enhancing trade. Cabinet approved a national tourism strategy in May 2012 which is being implemented under the Investor Road Map.

4. Medium-term outlook

Mr Speaker, this is an exceptional year for revenues. SACU receipts alone will be almost as large as all revenues combined in 2011/12 (including SACU revenues). The Government believes that the money is being used wisely to strengthen the macro-fiscal position and clear arrears.

With the Revenue Authority in operation we are optimistic that domestic revenue collection will improve. However the Government continues to rely on SACU receipts for most of its expenditure needs.

Mr Speaker, initial forecast for SACU receipts suggest that they will fall by E1 billion in 2013/14 and by a further E700 million in 2014/15. This is as predicted in the last Budget, and will be confirmed in December. Limited financing options mean that the reduction in revenues must be matched by spending cuts.

To balance the Budget, the Government must reduce spending by E1 billion in the 2013/14 Budget and by a further E700 million in the 2014/15 Budget. Some of these savings will be used to create fiscal space to introduce the next year of free primary education, to facilitate smooth elections, and to make a new provision for EVERS of E250 million. Any arrears that are not cleared in 2012/13 must also be paid through the 2013/14 Budget.

Mr Speaker, continuing existing policies will result in a budget deficit that cannot be financed. To minimise the impact on long-run growth, cuts should come mostly from recurrent spending.

The Government cannot make the necessary savings without reducing the wage bill. The wage bill accounts for over 40 percent of total expenditure. Cutting positions is more desirable than reducing salaries. The number of public service employees has grown by 26% (nearly 8,000 workers) since 2005. Each position is accompanied by higher spending needs for goods and services.

To start the process, I urge my colleague in the Ministry of Public Service to implement EVERS in 2012/13 and control hiring in all sectors to maximise the returns. The Government will also conduct a review of ministerial portfolios ahead of the next elections with a view to reducing the number of ministries. The public sector wage freeze will be maintained for at least one more year, as planned. Further measures may be needed if this strategy does not deliver the necessary savings.

Savings from the wage bill will be matched with cuts in the goods and services budget and transfers to public enterprises. Where possible, the Government will protect front-line services in priority sectors such as health and education.

6. Conclusion

Mr Speaker, today I am continuing the good practice started last year of providing an update of the execution of the Budget. I trust that this tradition will continue after the general election.

I have explained that the 2012/13 Budget is a credible budget. Revenue and core expenditure are broadly on target. Slippages in expenditure have come from spending that is necessary to improve the level of reserves in order to protect the currency peg and to support the private sector by clearing arrears. However, the Government still needs to improve its controls over spending.

I have also explained that the future remains uncertain and that greater efforts are needed to firmly put the Swaziland economy on a sustainable platform. The 2013/14 Budget will be critical to achieving that goal. It will be essential that all parts of society contribute to the necessary adjustment in spending and that those who are able to contribute more do so.

Mr Speaker, it is clear that financing decisions in the past three fiscal years have yielded negative consequences. The recent budgets were financed mostly by cutting spending, accumulating arrears and borrowing from the Central Bank and other domestic institutions. This has led to a growing stock of arrears and weakened confidence in the Government's ability to repay debts and maintain the currency peg. We are also approaching the time to repay some of those loans – starting with a E250 million bond in 2013/14.

Mr Speaker, we must learn from the mistakes of the past. That is why, going forward, the Government will adopt a new, rule-based financing strategy to facilitate greater macro-economic stability. Three rules will govern financing decisions for the coming Budget:

- (i) total public debt will be maintained below 35 percent of GDP;
- (ii) reserves will be increased to at least 17 percent of GDP; and
- (iii) the budget deficit will not be financed by arrears.

This will ensure that the deficit remains sustainable, the Lilangeni is protected from external shocks, and that fiscal pressures do not negatively impact on the private sector. It will also set a platform for higher economic growth.

Mr Speaker, efforts to improve the fiscal sustainability of the Budget will be coupled with greater transparency and accountability as required by the new PFM Bill. To make a credible step towards this goal, the Ministry of Finance will publish this speech and the associated figures online before the end of November.

Thank you Mr Speaker.

ANNEX A. FISCAL TABLES	2012/13	30 Sept 2012	End of year
	Budget	Preliminary	Forecast
Total revenue and grants	12,216,742	5,788,559	11,913,594
Total revenue	11,853,658	5,769,760	11,875,995
Tax revenue	11,663,547	5,724,005	11,784,485
Income taxes	2,766,702	1,152,706	2,641,887
Company Tax	820,986	378,151	834,493
Individuals	1,592,843	651,351	1,560,986
Other Income Tax	348,119	121,073	242,146
Graded Tax	4,754	2,131	4,262
Taxes on property	25,001	10,242	20,484
Taxes on goods and services	8,871,844	4,561,057	9,122,114
Sales Tax	0	0	0
Value Added Tax	1,498,268	804,822	1,609,644
Customs Union Receipts	7,064,808	3,532,192	7,064,384
Lotteries and Gaming	3,441	2,046	4,092
Road Toll	28,061	13,713	27,426
Licenses and Other Taxes	63,617	21,612	43,224
Fuel Tax	213,649	186,672	373,344
Non-tax revenue and net lending	190,111	45,755	91,510
Property Income	65,926	14,908	29,816
Fees and Fines	61,111	23,712	47,424
Net lending	63,074	7,135	14,270
Grants	363,084	18,799	37,598
Total expenditure	12,029,231	5,976,647	12,417,849
Total recurrent	9,716,494	5,186,825	10,838,205
Wages and salaries	4,618,270	2,206,338	4,590,731
Salaries	3,592,282	1,728,467	3,543,357
Allowances	469,851	223,751	457,997
Overtime	n/a	13,838	27,677
Pension	475,000	240,282	480,564
Other	81,137	0	81,137
Goods and Services	1,874,277	891,851	1,783,702
CTA	406,097	242,040	484,079
Travel	206,969	120,491	240,982
Drugs	239,168	120,219	240,438
Professional services	542,977	233,622	467,243
Rentals	79,892	42,523	85,046
Consumables	348,518	125,039	250,077
Durables	50,655	7,918	15,837
Transfers	2,973,731	1,890,985	4,118,469
Internal	2,305,973	1,205,406	2,410,812
External	55,258	25,579	51,157
Interministerial	612,500	660,000	1,656,500
Interest payments	250,217	197,651	345,302
External	n/a	81,041	162,082
Domestic	n/a	116,610	183,220
Capital expenditure	2,312,737	789,822	1,579,644
Govt	1,598,621	742,630	1,485,260
Loan	351,032	28,393	56,786
Grant	363,084	18,799	37,598
Overall balance	187,510	-188,087	-504,255
Total financing	-783,218	-729,355	-101,864
Domestic financing	-858,778	-655,846	45,154
External financing	75,567	-73,509	-147,019